

Flaherty & Crumrine Dynamic Preferred & Income Fund Inc
Form N-30B-2

October 28, 2016

FLAHERTY & CRUMRINE DYNAMIC PREFERRED AND INCOME FUND

To the Shareholders of Flaherty & Crumrine Dynamic Preferred and Income Fund (DFP):

The preferred market didn't miss a beat in the third fiscal quarter, continuing where it left off second quarter with additional positive returns. Total return² on net asset value (NAV) was 7.3% for the quarter, bringing the total return for the first nine months of fiscal 2016 to 12.1%. Total return on market price over the same periods was 6.5% and 15.6%, respectively.

Tailwinds described earlier in the year continued unabated during the most recent quarter. Monetary policy globally was very accommodative; supply of new preferred securities was subdued; legacy (those losing regulatory-capital treatment) and higher-coupon preferred securities were redeemed at a healthy pace; and credit quality remained strong. Preferred securities offered yield to investors struggling to find it in other places, which resulted in strong demand and higher prices for the asset class.

There is a direct inverse relationship in fixed-income securities (including preferreds) between price and yield, and higher prices this year have led to much lower coupons for newly-issued preferred securities. Many new issues during the quarter yield in the range of 4.5% - 5.5%, which in many cases is lower than early-2016 levels by almost 1.0%. These lower yields on preferreds were the result of lower overall interest rates (Treasuries and Swap Rates) and tighter spreads. Many issuers have taken advantage of persistently-low rates and positive market sentiment to refinance higher-coupon securities.

Although U.S. interest rates remain very low, the short end of the curve (notably T-bills and LIBOR) has moved higher in recent months as investors begin to factor in additional rate hikes by the Federal Reserve. The Federal Open Market Committee passed on a rate hike at its meeting on September 21, however, so markets continue to wrestle with predicting a future path of increases. Higher levels of 3-month LIBOR have resulted in higher leverage costs for the Fund, and future changes in this reference rate will be highly correlated to Federal Reserve rate changes. Although leverage still adds substantial incremental net income for the Fund, we expect that to decline modestly over time as borrowing costs rise.

We continue to see value in preferred securities, although security selection has become more challenging as yields have moved lower and older, higher-coupon issues have been refinanced. Flows into the preferred market (via mutual funds, exchange-traded funds (ETFs), asset managers, and retail investors) have been very strong for many years. If anything gives us pause, it is more this level of inflow than current valuations. ETFs that invest in preferreds have become very large relative to their target market segment (\$25-par listed securities), and it isn't clear where the outer limits are located. We know ETFs have been a source of volatility in the past (or opportunity, depending on one's viewpoint), and we expect they could be again in the future. Preferreds should benefit from continued strong credit quality, reliably earning coupons many of them tax-advantaged over time. However, at current levels they are potentially more sensitive to changes in market sentiment than they were six months ago.

¹ June 1, 2016 - August 31, 2016

² Following the methodology required by the Securities and Exchange Commission, total return assumes dividend reinvestment.

As always, we encourage you to visit the Fund's website www.preferredincome.com for timely and important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

September 30, 2016

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OVERVIEW

August 31, 2016 (Unaudited)

Fund Statistics

Net Asset Value	\$	25.78
Market Price	\$	25.03
Discount		2.91%
Yield on Market Price		7.67%
Common Stock Shares Outstanding		19,157,469

Moody's Ratings***% of Net Assets**

A	2.0%
BBB	54.8%
BB	29.9%
Below BB	3.6%
Not Rated**	6.8%
Below Investment Grade***	34.0%

* Ratings are from Moody's Investors Service, Inc. Not Rated securities are those with no ratings available from Moody's.

** Does not include net other assets and liabilities of 2.9%.

*** Below investment grade by all of Moody's, S&P, and Fitch.

Industry Categories**% of Net Assets****Top 10 Holdings by Issuer****% of Net Assets**

Citigroup	4.8%
Bank of America Corporation	4.6%
Liberty Mutual Group	4.5%
MetLife	4.2%
Morgan Stanley	3.8%
Fifth Third Bancorp	3.6%
M&T Bank Corporation	3.3%

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PNC Financial Services Group	3.3%
JPMorgan Chase	3.2%
AXA SA	2.6%
	% of Net Assets****
Holdings Generating Qualified Dividend Income (QDI) for Individuals	63%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	48%

****This does not reflect year-end results or actual tax categorization of Fund distributions. These percentages can, and do, change, perhaps significantly, depending on market conditions. Investors should consult their tax advisor regarding their personal situation.
Net Assets includes assets attributable to the use of leverage.

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PORTFOLIO OF INVESTMENTS**August 31, 2016 (Unaudited)**

Shares/\$ Par		Value
Preferred Securities 94.7%		
Banking 52.9%		
7,000	AgStar Financial Services ACA, 6.75%, 144A****	\$ 7,434,875*
103,166	Astoria Financial Corp., 6.50%, Series C	2,776,455*
\$ 1,738,000	Australia & New Zealand Banking Group Ltd., 6.75%, 144A****	1,956,974**(2)
\$ 1,000,000	Banco Bilbao Vizcaya Argentaria SA, 9.00%, 144A****	1,048,750**(2)
Bank of America Corporation:		
40,000	6.00%, Series EE	1,080,000*
\$ 1,800,000	6.30%, Series DD	1,971,000*
\$ 9,107,000	6.50%, Series Z	9,938,924*(1)
\$ 7,350,000	8.00%, Series K	7,570,500*(1)
\$ 13,105,000	8.125%, Series M	13,512,539*(1)
60,000	Barclays Bank PLC, 7.10%, Series 3	1,547,400**(2)
BNP Paribas:		
\$ 7,800,000	7.375%, 144A****	7,946,250**(1)(2)
\$ 2,000,000	7.625%, 144A****	2,108,000**(2)
76,704	Capital One Financial Corporation, 6.70%, Series D	2,203,131*(1)
Citigroup, Inc.:		
1,170,807	6.875%, Series K	34,670,522*(1)
24,371	7.125%, Series J	740,452*
\$ 5,000,000	Citizens Financial Group, Inc., 5.50%	4,962,500*(1)
CoBank ACB:		
38,100	6.20%, Series H, 144A****	3,998,119*
3,450	6.25%, Series F, 144A****	368,395*
\$ 550,000	6.25%, Series I, 144A****	596,799*
813,953	Fifth Third Bancorp, 6.625%, Series I	26,455,507*(1)
5,000	First Horizon National Corporation, 6.20%, Series A	130,912*
23,083	First Republic Bank, 6.20%, Series B	606,910*
Goldman Sachs Group:		
10,000	5.50%, Series J	271,425*
\$ 1,170,000	5.70%, Series L	1,196,618*
54,609	6.30%, Series N	1,515,946*
531,522	6.375%, Series K	15,531,073*(1)
HSBC PLC:		
\$ 4,458,000	HSBC Capital Funding LP, 10.176%, 144A****	6,760,557*(1)(2)
\$ 3,988,000	HSBC Holdings PLC, 6.875%	4,182,415**(1)(2)
332,000	Huntington Bancshares, Inc., 6.25%, Series D	9,260,310*(1)
133,400	ING Groep NV, 6.375%	3,428,380**(1)(2)

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2016 (Unaudited)

Shares/\$ Par		Value
Preferred Securities (Continued)		
Banking (Continued)		
JPMorgan Chase & Company:		
\$ 10,700,000	6.00%, Series R	\$ 11,306,690 ^{*(1)}
\$ 8,000,000	6.75%, Series S	9,031,680 ^{*(1)}
\$ 3,331,000	7.90%, Series I	3,460,076 ^{*(1)}
34,219	KeyCorp, 8.625%, Series C	896,538*
\$ 14,022,000	Lloyds Banking Group PLC, 6.657%, 144A****	15,634,530 ^{***(1)(2)}
M&T Bank Corporation:		
\$ 15,425,000	6.450%, Series E	17,237,438 ^{*(1)}
\$ 6,789,000	6.875%, Series D, 144A****	6,848,404 ^{*(1)}
Morgan Stanley:		
674,994	6.875%, Series F	20,216,070 ^{*(1)}
241,200	7.125%, Series E	7,381,323 ^{*(1)}
PNC Financial Services Group, Inc.:		
354,580	6.125%, Series P	10,741,115 ^{*(1)}
\$ 11,748,000	6.75%, Series O	13,275,240 ^{*(1)}
\$ 8,625,000	RaboBank Nederland, 11.00%, 144A****	10,560,234 ^{*(1)(2)}
627,170	Regions Financial Corporation, 6.375%, Series B	18,521,898 ^{*(1)}
Royal Bank of Scotland Group PLC:		
\$ 4,825,000	RBS Capital Trust II, 6.425%	5,126,563 ^{***(1)(2)}
538,500	7.25%, Series T	13,672,515 ^{***(1)(2)}
\$ 5,000,000	Societe Generale SA, 8.00%, 144A****	5,106,250 ^{***(1)(2)}
\$ 5,835,000	Standard Chartered PLC, 7.50%, 144A****	5,843,753 ^{***(2)}
26,174	State Street Corporation, 5.90%, Series D	748,118 ^{*(1)}
288,008	SunTrust Banks, Inc., 5.875%, Series E	7,506,208 ^{*(1)}
97,150	US Bancorp, 6.50%, Series F	3,036,180 ^{*(1)}
50,000	Valley National Bancorp, 6.25%, Series A	1,477,500*
Wells Fargo & Company:		
180,300	5.85%, Series Q	5,068,684 ^{*(1)}
\$ 9,025,000	7.98%, Series K	9,555,219 ^{*(1)}
Zions Bancorporation:		
10,000	6.30%, Series G	320,225*
\$ 10,000,000	7.20%, Series J	10,675,000 ^{*(1)}
		389,019,089
Financial Services 0.4%		
\$ 1,440,000	AerCap Global Aviation Trust, 6.50% 06/15/45, 144A****	1,486,800 ⁽²⁾
Charles Schwab Corporation:		
4,300	5.95%, Series D	118,218*
55,700	6.00%, Series C	1,533,003 ^{*(1)}
		3,138,021

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PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2016 (Unaudited)

Shares/\$ Par		Value
Preferred Securities (Continued)		
	Insurance 25.9%	
373,578	Allstate Corp., 6.625%, Series E	\$ 10,524,626 ⁽¹⁾
	American International Group:	
\$ 280,000		